THE INCOME TAX ORDINANCE, 2001

- New definitions for "digitally delivered services" and "e-commerce" are being introduced to broaden the tax base to encompass online services and marketplaces, which include online platforms that enable direct interactions between buyers and sellers.
- The current definition of Non-Profit Organizations (NPOs) no longer includes recreational clubs that charge high new-membership fees (exceeding Rs 1 million), thereby rendering their income from member services or sales taxable under the category of "income from business".
- Capital gains derived from the sale of debt instruments and government securities owned by non-resident companies in a Special Convertible Rupee Account (SCRA) will be subject to a 20% withholding tax if sold within a period of 12 months. If the holding period surpasses 12 months, a reduced withholding tax rate of 10% will be applicable.
- The minimum annual fair market rent for commercial properties is established at 4% of their fair market value, unless the Commissioner receives evidence that justifies a lower rental value.
- 10% of expenses claimed for purchases from persons without a National Tax Number (NTN) will be disallowed, with the exception of direct purchases of agricultural produce from farmers.
- 50% of sales-related expenses will be disallowed where payments exceeding Rs 200,000 are made other than through a banking channel or digital medium.
- Depreciation will not be permitted on capital assets if the withholding tax obligations outlined in Sections 152 or 153 have not been satisfied at the time of acquisition.
- The amortization duration for intangible assets that do not have a determinable life has been decreased from 25 years to 15 years.
- Business losses can no longer be offset against income under the "property" category within the same tax year.
- The duration for carrying forward the minimum tax paid under Section 113 has been reduced to 2 years, previously 3.
- Entities or groups that are taxed outside the standard tax framework are now disqualified from claiming group relief.
- A full 100% tax credit is now available to all entities participating in coal mining initiatives in Sindh, not limited to those supplying to power generation projects, but also applicable to supplies for other industries.
- Digital payments are now recognized as legitimate banking transactions; loans obtained through these channels will not be classified as "income from other sources.

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- Tables 1 and 2 under Clause (66) of Part I of the Second Schedule have been merged. All organizations falling under this clause must now comply with Section 100C to retain tax exemption status.
- Certain high-value transactions are now restricted for non-compliant individuals or entities, including the registration or purchase of vehicles, transfer of property, and sale of securities or mutual funds. Banks are also restricted from processing transactions or withdrawals above a notified threshold for such persons.
- The 180-day timeframe for the issuance of amended assessment orders subsequent to a notice has been eliminated.
- Taxpayers audited in any of the past three years are now exempt from audit selection under Sections 177 and 214C, compared to the previous four-year look-back.
- The Commissioner is now empowered to collect tax demands, even in the absence of an appeal effect order, as long as the demand has been confirmed by appellate authorities.
- The restrictions on monetary limits for appeals have been eliminated, enabling any individual (**excluding state-owned enterprises**) to submit appeals to the Commissioner (Appeals). Additionally, taxpayers have the option to skip this phase and directly engage with the Appellate Tribunal Inland Revenue.
- The appellate framework has been predominantly reinstated to the configuration that was in place before the Tax Laws (Amendment) Act, 2024.
- The criteria for eligibility to appoint Chartered Accountants as Members of the Appellate Tribunal now encompasses professionals who possess a minimum of ten years of experience in either practice or employment under a Chartered Accountant.
- Taxes are rendered recoverable within seven days following a decision by the High Court or Supreme Court that is in favor of the tax department.
- The tax authority is now authorized to assign Inland Revenue officers to business locations to oversee production, sales, services, and inventory for precise tax evaluation.
- Fines for not submitting withholding statements have been raised from Rs 5,000 to Rs 50,000. Furthermore, new penalties have been established for online marketplaces that accommodate unregistered vendors, as well as for banks, payment gateways, or couriers that neglect to withhold tax on digital transactions.
- The tax exemption for the FATA/PATA regions has been prolonged until June 30, 2026.
- The income earned by non-residents and related entities involved in the ICC Champions Trophy 2025 is eligible for tax exemption.

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- Proposed for reduced of Advance tax on purchase of immovable property for as under:

1	Where the fair market value does not exceed Rs. 50 million	3%	1.5%
2	Where the fair market value exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	2%
3	Where the fair market value exceeds Rs. 100 million	4%	2.5%

- Proposed for enhanced of Advance tax on sale of immovable property for as under.

S. No.	Amount	Existing Rate	Proposed Rate
1	Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	4.5%
2	Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs. 100 million	3.5%	5%
3	Where the gross amount of the consideration received exceeds Rs. 100 million	4%	5.5%

- Enhanced tax rates are not applicable under the Tenth Schedule for the disposal of securities acquired on or after July 1, 2025.
- The withholding tax rate for non-filers under section 151 concerning profit on debt will now be subject to a 100% enhanced rate.
- Tax relief is extended to the salaried class by lowering the tax rate from 5% to 1% for incomes ranging from Rs.600,000 to Rs.1,200,000, and from 15% to 11% for incomes up to Rs.2,200,000. Furthermore, for higher earners with incomes between Rs.2,200,000 and Rs.3,200,000, the tax rate is decreased from 25% to 23%.
- Pensions, annuities, or commutation of pensions exceeding Rs. 10 million for former employees under the age of seventy are now liable for a withholding tax of 5%.
- Tax exemptions on pensions as outlined in various clauses of the Second Schedule have been revoked.
- The exemption on up to 50% of the accumulated balance received from the voluntary pension system has been eliminated.
- The surcharge rate for salaried individuals whose taxable income exceeds Rs. 10 million has been decreased from 10% to 9%. The super tax rate for income ranging from Rs. 150 million to Rs. 500 million has been lowered by 0.5%.
- A 25% tax credit that is currently available to full-time educators and researchers will no longer be in effect after July 01, 2025. The tax credit concerning interest,

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profit, shares in rental income, or the appreciation value of a property is being reinstated, contingent upon specific conditions. This tax credit will be applicable at the effective tax rate of the individual, calculated on the lesser amount between the total profit or interest paid or 30% of the individual's taxable income for the year.

- Courier companies and banks/payment intermediaries are now required to withhold a tax ranging from 0.25% to 2% on Cash on Delivery (COD) or online transactions for digital goods and services within Pakistan. This withholding will be considered as the final tax for the recipient. It is mandatory to file quarterly withholding statements.
- A new section 151A has been proposed concerning withholding tax on capital gains derived from the sale of debt securities. Custodians will impose a 15% tax on the total capital gain. Exemptions are available for transactions conducted through registered stock exchanges or settled via NCCPL.
- The withholding tax rate applicable to the provision of services has been raised to 15% for both corporate and non-corporate service providers. This withholding tax is regarded as a minimum tax for the service industry, and thus, the increase in these rates will considerably elevate their operational costs.
- Furthermore, the withholding tax rate for certain services, which qualifies for a reduced withholding tax rate, has also been increased from 4% to 6% for resident service providers and from 4% to 8% for non-resident service providers. IT-enabled services will remain subject to a withholding tax rate of 4%.
- Additionally, the withholding tax rate on payments made to sports individuals has been raised from 10% to 15%.
- Non-filers will now face a withholding tax rate of 0.8%, an increase from the current rate of 0.6%, applicable to the total cash withdrawals that exceed PKR 50,000 in a single day.
- The tax rate on interest paid by banking companies or financial institutions on accounts or deposits has been raised from 15% to 20%. Additionally, interest income derived from other sources, such as national saving schemes, will be taxed at a rate of 15%.

  Dividend income generated from mutual funds will incur a tax of 25% for those mutual funds that obtain proportional income from average annual investments in debt securities; conversely, the tax rate will be 15% for mutual funds that derive proportional income from average annual investments in equities.
- The tax rate on offshore digital services has been increased from 10% to 15%.

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- Various new definitions; terminologies and phrases have been identified including "abettor"; "cargo tracking system"; "courier"; "e-bilty"; "e-commerce"; "online marketplace"; "payment intermediary", "tax fraud".
- The scope of taxation has been broadened to include the supply of digitally ordered goods through online marketplaces, websites, and software applications operating within Pakistan in the context of e-commerce.
- The payment intermediaries, which encompass banking companies, financial institutions, licensed exchange companies, or payment gateways, are now held accountable for the collection and remittance of taxes.
- In case the person liable to be registered does not furnish a return, the Officer of Inland Revenue is authorized to evaluate the sales tax liability based on the value of additions using any reasonable method, including information acquired from purchase data from alternative sources.
- Every Person, including non-resident Persons engaged in the digital sale of goods via online marketplaces, websites, or software applications, must be registered. Furthermore, no online marketplace or courier participating in e-commerce is permitted to provide their services for e-commerce activities unless they are registered under both sales tax and income tax regulations.
- The Commissioner of Inland Revenue has the authority to impose restrictions on the operations of bank accounts and to prevent the transfer of immovable property belonging to any individual who does not register under the Sales Tax Act. Any order that imposes such restrictions is subject to appeal before the Chief Commissioner of Inland Revenue within 30 days of the receipt of the order.
- If Person who is required to register does not pursue registration, the Chief Commissioner of Inland Revenue is authorized to seal the business premises or immovable property, and/or appoint a receiver to manage the taxable activities of that Person. Nevertheless, specific conditions and procedures must be met before the Chief Commissioner can take such actions.
- The Board has been granted the authority to mandate any Person or category of Person to connect their electronic invoicing systems with the Board's Computerized System for real-time sales reporting.
- Monthly reporting obligations have been established for every online marketplace, necessitating the reporting of supplier-specific amounts paid and taxes owed, along with additional details regarding digitally ordered goods, regardless of the economic ownership of the supplies originating from within Pakistan.

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- The officers of the Directorate General have been made part of the Board's hierarchy. As a result, they shall now be able to provide assistance in audit, investigation, litigation or valuation to the field officers.
- The Section heading relating to "Penalty and Offences" is proposed to be replaced with "Offences, Penalties and Punishment". It appears that this change shall bring prosecution into the penal provisions and may create an opportunity for initiation of criminal proceedings against the taxpayers/registered persons.
- The officer of the Inland Revenue has been granted extensive powers, allowing for the arrest of the accused individual without the prior consent of the relevant Commissioner. Nevertheless, the Commissioner has the authority to release the accused if he determines that there is insufficient evidence or reasonable grounds for the arrest, or if the arrest was conducted with malicious intent.
- Should the taxpayer remit the tax amount resulting from an inquiry or investigation, along with any applicable penalties and default surcharges, the Commissioner may choose to compound the offense. However, if the case is currently pending in the High Court, no compounding will be permitted without the approval of the High Court.
- The monetary threshold for initiating a first appeal is proposed to be eliminated. Taxpayers, with the exception of State-Owned Enterprises (SOEs), will now have the ability to file an appeal before the Commissioner of Appeals, regardless of the value of the tax demand.
- An aggrieved person has been given the option to file an appeal. before the Commissioner Appeals or the Appellate Tribunal within 30 days of receipt of order irrespective of the monetary threshold.
- The Chief Commissioner has been empowered to refer the audit firm to Audit Oversight Board in case he has reason to believe that audited accounts do not reflect the true and fair view of the sales, purchases and related sales tax liability.
- The monetary restriction on claim of input tax limit of Rs. 100 million in a financial year and Rs. 10 million in a tax period is proposed to be abolished. In case of specific taxpayers/industries, the removal of limit shall accelerate the creation of refunds values.
- The inclusion of various items in the Third Schedule aims to expand the tax coverage on consumer goods, particularly those regarded as luxury or non-essential.

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- By incorporating supplies and imports of machinery and inputs for industries located in tribal areas, these imports and supplies are now considered part of the standard tax framework. A progressively increasing tax rate has been established for the next four years.
- The exemption on photovoltaic cells and solar panels has been removed, resulting in these items now being subject to taxation.

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